Ainsworth®

ANNUAL REPORT 2004

Engineered Performance for the World of Wood®

04

The year 2004 was one of unprecedented growth for Ainsworth, positioning the Company as the largest OSB producer in North America west of the Mississippi River and the fourth largest in the world. The Company posted record sales of $909.9 million, up 67.6% from 2003. Sales of OSB were up 78.0% to $799.4 million, and net income reached $175.1 million.

The principal drivers for this exceptional growth rest in the completion of two strategic acquisitions coupled with record market prices for OSB products in 2004, as well as the Company's outstanding operating performance in its pre-existing operating facilities.

As a leader and innovator in OSB production, complemented by an exceptionally dedicated and skillful workforce and modern low-cost production facilities, we begin 2005 with optimism and excitement for the future. We continue to build on a foundation of strategic vision and success, while taking pride in providing high quality products and services.

TABLE OF CONTENTS

2004 HIGHLIGHTS

(MILLIONS OF CANADIAN DOLLARS, EXCEPT COMMON SHARE DATA)

Year ended December 31,	2004	2003
OPERATING RESULTS		
Sales	**909.9**	543.0
Net Income	**175.1**	123.7
Cash provided by operating activities	**364.4**	133.6
EBITDA[1]	**377.3**	201.5
FINANCIAL POSITION		
Working Capital	**219.0**	259.4
Total assets	**1, 441.0**	627.7
Total debt	**916.9**	352.5
Shareholders' equity	**300.3**	171.8
COMMON SHARE DATA		
Earnings per share	**11.98**	8.49
Common shares outstanding	**14,649,140**	14,564,948

[1] *EBITDA is a non-GAAP financial measure and is defined as operating earnings before amortization and write-down of capital assets, plus interest and other income*

	2004		2003	
PRODUCT SHIPMENTS	Volume	Sales (000's)	Volume	Sales (000's)
OSB (msf – 3/8")	**2,036,774**	**$ 799,369**	1,341,546	$ 448,987
Plywood (msf – 3/8")	**140,950**	**95,912**	119,072	77,455
Veneer (msf – 3/8")	**45,385**	**10,897**	51,746	13,274
Chips (BDU's)	**39,907**	**3,744**	32,370	2,346
Lumber (mfbm)	**—**	**—**	2,447	925
		$ 909,922		$ 542,987
SALES REVENUE BY MARKET	% of Total	Sales (000's)	% of Total	Sales (000's)
Canada	**11.7 %**	**$ 106,837**	17.5 %	$ 94,277
United States	**84.0 %**	**763,952**	75.4 %	410,212
Europe	**1.1 %**	**9,641**	1.6 %	8,067
Asia	**3.2 %**	**29,492**	5.5 %	30,431
	100.0 %	**$ 909,922**	100.0 %	$ 542,987

LETTER TO SHAREHOLDERS

Dear fellow shareholders:

The year 2004 was one of unprecedented growth for Ainsworth. The Company completed two acquisitions in 2004, doubled its oriented strand board ("OSB") production capacity, refinanced its debt under favorable terms, and posted record earnings. Ten years ago Ainsworth was recognized primarily as a small producer of high-quality lumber and was just in the process of ramping up production at its first OSB mill at 100 Mile House. By the end of 2004 the Company had become the largest OSB producer in North America west of the Mississippi River and the fourth largest in the world.

A WATERSHED YEAR

The Company's strategic expansion and the record pricing for OSB resulted in impressive financial results for 2004. Total sales for the year reached a record $909.9 million, up 67.6% over 2003. Sales of OSB were up 78.0% to $799.4 million. Plywood and other sales rose 17.6% to $110.5 million. Net income reached $175.1 million or $11.98 per share, an increase of 41.6% over the 2003 net income of $123.7 million or $8.49 per share. The Company also paid a $1.00 per share special dividend to its shareholders, its first common share dividend since it became a public company in 1993.

TIMELY REFINANCING

The strength of the OSB market in 2003 and 2004 and Ainsworth's outstanding operating performance enabled the Company to refinance its senior secured long-term debt under favorable terms. The refinancing was completed in March 2004, using cash on hand and the proceeds of a US$210 million issue of senior unsecured notes. These initiatives substantially improved the Company's competitiveness and provided the financial flexibility for the subsequent expansion.

MAJOR EXPANSION EAST AND SOUTH

In May 2004 Ainsworth successfully bid for and acquired all of the shares of Voyageur Panel Limited and its 440 million square feet (mmsf) OSB plant in Barwick, Ontario. At a cost of US$215.8 million (CDN$296.3 million) this purchase presented an outstanding opportunity for Ainsworth and allowed it to expand its operations to Canada's heartland and to better serve eastern U.S. markets at the same time.

In September 2004 Ainsworth acquired from Potlatch Corporation its three Northern Minnesota OSB plants for approximately US$455.5 million (CDN$584.8 million). The acquisition was financed through the issuance of US$450 million (CAD$577.8 million) of Senior Unsecured Notes. The Company believes that its experience in developing, bringing to production, and managing its own highly productive OSB plants will enable it to optimize the output and quality of the three Minnesota plants while benefiting from the excellent workforce at these facilities. The acquisition is also expected to significantly enhance the Company's position in the eastern and central U.S. markets.

These new additions to Ainsworth's portfolio of OSB facilities have added 1,830 mmsf of production capacity. They have enabled the Company to consolidate and diversify its customer base and create significant marketing synergies.

Ainsworth undertook these expansions with the expectation that the exceptional market conditions prevailing in the first half of 2004 would continue for at least another twelve months with little new competing capacity coming on stream. Subsequent experience and profitability have proven the merits of this strategy.

ONGOING OPERATIONS

In addition to expansion from outside, Ainsworth achieved higher levels of production and lower unit costs at its existing manufacturing facilities during 2004. The Company's total production volume at its preexisting operations rose 3.8% from the prior year, continuing the trend of recent years. Production at the High Level OSB facility, in particular, increased by 13.7% compared to 2003. Specialty plywood production increased by 21.3% over the prior year as the Company met the continuing high demand for concrete-forming plywood and commodity sheathing panels.

Some transportation disruptions were experienced in 2004 due to the unusual demand for construction materials, and the resulting shortage of trucking equipment, as well as other labour issues in the U.S. trucking industry. Fuel-sensitive operating costs also rose significantly during the year. Despite these challenges the Company was successful in increasing the volume of engineered wood products delivered to its customers.

MARKETS AND PROSPECTS REMAIN POSITIVE

Housing construction in North America remained exceptionally robust throughout 2004, driven by historically low interest rates and an ongoing surge in demand. Surpassing the impressive record set in the prior year, 2004 saw the highest number of U.S. housing starts recorded in over a quarter century. Ainsworth's average OSB price was 17.3% higher than that of 2003 and 71.0% higher than 2002. Prices have remained strong into the first quarter of 2005, and the Company expects OSB prices to continue to be strong in the near term.

In the medium term, as new competing capacity comes on line, the demand-supply equation will inevitably change. Any future damping of pricing is likely to be mitigated, however, by the ongoing proportionate growth in the construction industry's use of engineered wood products. In this regard Ainsworth has continued to diversify its offering in higher margin value-added OSB specialty products. Significant inroads in this area were made during 2004, including the integration of several value-added products produced at the Minnesota plants.

With respect to plywood, the increase in the Company's specialty plywood sales was due to the success of Pourform 101, first introduced in 2003. As well, the Company's position in the UK market, which had eroded somewhat in recent years, was successfully revitalized.

Internally, the Company fully upgraded its IT systems during the year. It also expanded its sales and marketing infrastructure in response to its rapid growth. Five regional market development representatives were retained to improve and expand service to the Company's customer base in different regions of the United States.

We begin 2005 with considerable strength and optimism for the future. Our operations are set apart by an exceptionally dedicated and skillful workforce, modern low-cost production facilities, and a greatly expanded share of our markets. We continue to take pride in providing high quality products and services to our customers, and we are enthusiastic about building on this tradition in the future.

April 25, 2005

Brian Ainsworth
Chairman &
Chief Executive Officer

Allen Ainsworth
President

Catherine Ainsworth
Chief Operating Officer &
Corporate Secretary

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

OVERVIEW

We are principally engaged in the production of oriented strand board (OSB) and specialty plywood for sale to markets in the United States, Canada, Asia and Europe. Our operating results are affected by prevailing market prices for our principal products, as well as our production volumes and costs of production. Sales of our products are affected by residential and commercial construction and repair and remodeling industries in North America and Japan and, to a lesser extent, the commercial construction industry in Europe. These industries are highly cyclical and are affected by numerous factors, including real estate prices, interest rates, credit availability, tax policy, energy costs, weather conditions, natural disasters and general economic conditions.

In 2004, in connection with our growth strategy within the engineered wood business sector, we acquired four OSB plants located in the Central region of North America. The May 19th acquisition of Voyageur Panel Limited and its OSB facility in south western Ontario combined with the September 22nd purchase of the three OSB manufacturing facilities of Potlatch Corporation in Minnesota increased our OSB designed production capacity to 3,355 million square feet (mmsf), a capacity increase of over 100%. The acquisition of these assets gives us increased diversification of our customer base, plus enhanced access to the Central market region of the United States. We also believe these acquisitions will provide us with an opportunity to enhance our product diversity and expand our sales of value added products.

Excluding production from plants acquired in 2004, our preexisting manufacturing assets achieved higher production volumes of both OSB and specialty plywood compared to 2003. OSB production volume was 1,389 mmsf in 2004 compared to 1,351 mmsf in 2003. The greatest OSB production increase occurred at the High Level OSB facility, where 2004 OSB production increased by 13.7% compared to 2003. Production at the 100 Mile House and Grande Prairie OSB facilities was marginally higher in 2004 compared to 2003. Meanwhile, specialty plywood production volume increased to meet the higher demand for concrete forming plywood products and commodity plywood sheathing products. In 2004, overall plywood production was 144 mmsf, an increase of 21.3% compared to 2003. Veneer production sold to third parties continues to diminish to immaterial levels as veneer production is increasingly consumed internally in our Savona plywood facility. There was no production of lumber in 2004 and the Abbotsford facility was permanently closed late in the year.

Our operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the U.S. dollar, as prices for our products are denominated in U.S. dollars. Offsetting this sensitivity are U.S. denominated freight charges, some production expenses and all interest charges. We have not hedged our exposure to fluctuations in the U.S. dollar by entering into foreign exchange forward contracts.

Our value-added OSB products, including our export-standard OSB products, typically command premium prices, generate greater margins than our commodity sheathing OSB products, and tend to mitigate, to some extent, the impact of commodity cycles. As a result, these products generally enhance our profitability through the economic cycle.

Cost of products sold consists primarily of wood fiber, resins, waxes, labor costs and energy. Wood fiber from timber is the primary raw material used in our operations and is the most significant cost of our manufacturing process. Fiber supply self-sufficiency is a key competitive element, because the direct control and management of fiber supplies partially insulates an operator from fluctuations in the market price of fiber. We supply our manufacturing operations primarily from fiber resources held under long-term agreements with the governments of British Columbia and Alberta, providing a secure supply of fiber on a sustainable basis. Approximately 87% of the fiber requirements for our Canadian OSB mills are supplied by the provincial government quotas and allocations, and multi-year fiber agreements with other forest products companies and aboriginal groups. We purchase the balance of our fiber requirements in the open market. All of our U.S. OSB facilities purchase all of their fiber requirements on the open market.

RESULTS OF OPERATIONS

SELECTED QUARTERLY INFORMATION

	Q4-04	Q3-04	Q2-04	Q1-04	Q4-03	Q3-03	Q2-03	Q1-03
(in millions, except per share data)								
Sales	$ 253.0	$ 225.2	$ 241.1	$ 190.6	$ 173.6	$ 155.8	$ 106.2	$ 107.3
Operating earnings	27.5	87.4	120.1	91.0	67.4	59.0	12.7	16.2
Foreign exchange gain (loss) on long-term debt	46.1	33.5	(0.1)	(5.7)	12.8	(0.7)	33.9	30.9
Net income (loss)	52.4	71.1	71.4	(19.8)	40.9	28.9	27.6	26.1
Earnings (loss): $ per share	3.58	4.85	4.87	(1.36)	2.82	1.99	1.90	1.80
EBITDA[1]	55.5	84.4	133.0	104.4	89.2	67.3	20.2	24.8
Cash flow from operations[2]	60.7	111.7	149.4	45.0	77.8	46.7	31.3	(22.1)
Outstanding shares[3]	14.6	14.6	14.6	14.7	14.6	14.6	14.6	14.5

[1] *EBITDA, a non-GAAP financial measure, represents operating earnings before amortization and write-down of capital assets, plus interest and other income. We have presented EBITDA as we believe that, in addition to net income (loss), EBITDA provides investors with a basis to evaluate our operating performance and ability to incur and service debt and to fund capital expenditures.*

[2] *Cash provided by operations after changes in non-cash working capital.*

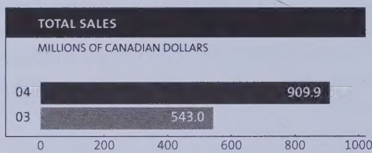
[3] *At March 24, 2005, the Company had 14,660,064 issued common shares.*

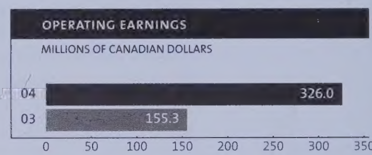
SELECTED ANNUAL INFORMATION

	2004	2003	2002
(in millions, except per share data)			
Sales	**$ 909.9**	$ 543.0	$ 430.3
Net income (loss)	**175.1**	123.7	(17.9)
Earnings (loss): $ per share	**11.98**	8.49	(1.23)
Total assets	**1,441.0**	627.7	555.1
Total debt	**916.9**	352.5	440.3
Cash dividends declared: $ per-share	**$ 1.00**	$ 0.00	$ 0.00

FINANCIAL HIGHLIGHTS

The year ended December 31, 2004 has seen a significant increase in both the pricing and sales volume of OSB products, which has increased our sales, operating earnings and net income.

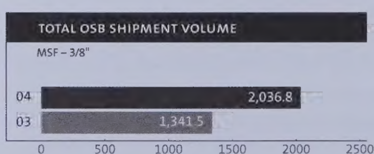


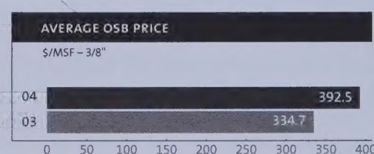


Net income for the year ended December 31, 2004 was $175.1 million compared to $123.7 million in 2003. The increase in net income was primarily attributable to a $170.7 million or 110% increase in operating earnings less a one time charge of $106.2 million that was associated with our March 2004 debt refinancing.

Sales in fiscal 2004 were $909.9 million compared to $543.0 million in fiscal 2003, representing an increase of $366.9 million or 67.6%.

Sales of OSB in 2004 were $799.4 million compared to $449.0 million in 2003, representing an increase of $350.4 million or 78.0%. This increase was due to a 51.9% increase in shipment volumes, from 1,341 mmsf in 2003 to 2,037 mmsf in fiscal 2004, and an average price increase of 17.3%. The increased shipment volumes were due primarily to the May 19th acquisition of Voyageur Panel Limited and the September 22nd purchase of the OSB manufacturing facilities of Potlatch Corporation. Benchmark OSB market prices achieved an all-time average annual high in 2004.





Sales of specialty overlaid plywood and other products were $110.5 million compared to $94.0 million in 2003, representing a increase of $16.5 million or 17.6%. The increase in sales resulted from a 18.4% increase in shipment volumes driven by higher market demand and a 5.4% increase in average sales price. This higher average sales price is largely attributable to a product mix comprised of an increased proportion of relatively higher-priced commodity plywood sheathing products.

Cost of products sold in fiscal 2004 was $498.2 million compared to $322.8 million in fiscal 2003, representing an increase of $175.4 million or 54.3%. This increase is due primarily to increased shipment volumes of OSB and higher unit costs for wood fiber and resins.

OSB cost of products sold in fiscal 2004 was $408.0 million compared to $241.6 million in fiscal 2003, representing an increase of $166.4 million or 68.9%. This increase was due primarily to a 58.7% increase in OSB shipment volumes attributable to the OSB manufacturing assets acquired during 2004 and a 3.5% increase in OSB shipment volumes generated at the OSB facilities that existed prior to 2004. Additional unit cost increases are attributable to higher prices for wood fiber and resins.

Specialty overlaid plywood and other products cost of products sold in fiscal 2004 was $90.2 million compared to $81.2 million in fiscal 2003, representing an increase of $9.0 million or 11.1%. This increase was due primarily to an increased plywood production volume of 21%.

Selling and administration expense in fiscal 2004 was $31.0 million compared to $18.2 million in fiscal 2003, representing an increase of $12.8 million or 70.3%. This increase was due to ancillary costs associated with the 2004 acquisitions and refinancing initiatives, plus additional executive and staff performance-based compensation associated with the excellent business results achieved in 2004.

Amortization of capital assets in fiscal 2004 was $53.9 million compared to $33.0 million in fiscal 2003, representing an increase of $20.9 million or 63.3%. Amortization expense increased primarily due to the inclusion of the newly acquired OSB facilities in 2004.

Finance expense, including a one time charge of $106.2 million associated with the March 2004 debt refinancing, for 2004 was $150.2 million (including $40.7 million of direct interest expense) compared to $56.1 million (including $51.2 million of direct interest expense) in 2003, representing an increase of $94.1 million or 167.7%.

We recorded a $73.8 million unrealized foreign exchange gain on our U.S. dollar denominated long-term debt for fiscal 2004 compared to an unrealized gain of $76.9 million in 2003, representing a decrease of $3.1 million. The gain in 2004 reflects the appreciation of the Canadian dollar relative to the U.S. dollar during the year.

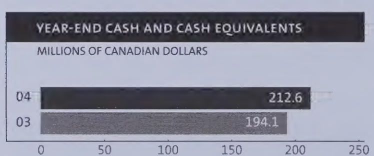
Interest and other expense for 2004 was $3.4 million compared to $0.5 million in 2003. This increase in other expense was related primarily to a $2.6 million charge relating to the employee participation share plan.

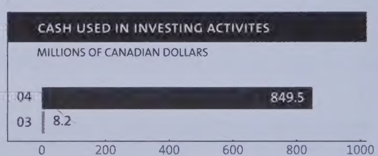
Income tax expense in fiscal 2004 was $71.2 million compared to an expense of $51.9 million in fiscal 2003.

CASH FLOW AND LIQUIDITY

In 2004, the Company generated cash flow from operations after changes in non-cash working capital of $364.4 million compared to $133.6 million in 2003. The significant improvement in cash flow from operations is explained by higher operating earnings in 2004 on account of the significant increase in OSB shipments after the acquisitions combined with stronger OSB prices relative to 2003 and a decrease in non-cash working capital. Non-cash working capital decreased by $89.2 million in 2004 compared to an increase of $12.7 million in 2003. The decrease in non-cash working capital in 2004 is explained by a $45.8 million increase in accounts payable and accrued liabilities, a $37.7 million increase in income taxes payable and a $14.2 million decrease in accounts receivable partially offset by a $4.4 million increase in inventories and a $4.2 million increase in prepaid expenses. The increase in non-cash working capital in 2003 is explained by a $6.7 million increase in accounts receivable, a $6.6 million decrease in accounts payable and accrued liabilities, a 2.2 million increase in inventories and a $0.8 million increase in prepaid expenses partially offset by a $3.6 million increase in income taxes payable.

Net cash used for investing activities was $849.5 million in 2004 compared to net cash used for investing activities of $8.2 million in 2003. The increased cash usage is primarily attributable to the purchase of Voyageur Panel Limited ($296.3 million) and the acquisition of the Potlatch OSB assets ($584.8 million). Capital expenditures in 2004 were $18.0 million compared to $8.2 million in 2003. Our capital expenditures in 2004 were focused on several small-scale maintenance of business and profit improvement projects at all facilities. The majority of our 2003 capital expenditures were on profit improvement projects at the Grande Prairie and High Level OSB facilities.





Cash flows from financing activities totaled $503.6 million in 2004 compared to cash uses from financing activities of $11.5 million in 2003. The increase in cash flow from financing activities was due to proceeds from the issue of Senior Secured Notes of $996.4 million partially offset by $451.3 million in cash utilized for the redemption of US$87.1 million of our 13.875% Senior Secured Notes and US$182.2 million of our 12.50% Senior Secured Notes. During the year, the Company issued a one time special dividend to shareholders of $14.7 million.

At December 31, 2004, we had $212.6 million in cash and cash equivalents compared to $194.1 million at December 31, 2003.

Our cash flow is subject to general economic, industry, financial, competitive, legislative, regulatory and other factors, including economic conditions in North America, that are beyond our control. If our cash and operating cash flow is insufficient to meet our operational expenses and debt service obligations we will have to consider several options available to us including, raising additional equity, sales of assets or incurring additional indebtedness. These options may not be available to us at all or on satisfactory terms. We do not have any material off-balance sheet arrangements other than letters of credit pledged for collateral in the amount of $6.6 million at December 31, 2004.

The following table summarizes the timing of payments for which we have contractual obligations as of December 31, 2004:

		Payment due by Period			
Contractual Obligation	Total	Less than 1 year	2–3 years	4–5 years	After 5 years
(in thousands of dollars)					
7.25% Senior Notes	$ 516,229	$ 23,965	$ 47,930	$ 57,930	$ 396,404
Floating Rate Senior Notes	278,663	11,885	23,770	23,770	219,239
6.750% Senior Notes	618,779	25,963	51,926	51,926	488,963
Other Senior Notes	6,947	687	6,260	–	–
Capital Lease Obligations	274	274	–	–	–
Operating Lease Obligations	13,271	4,428	6,179	2,664	–
Additional Acquisition Cost	11,749	11,749	–	–	–
Purchase commitments	7,092	4,688	2,404	–	–

OTHER BUSINESS ACTIVITIES

During the year the Company implemented new financial systems and controls. The Company upgraded its sales and order entry system, purchasing and maintenance management system, and its financial management system. These upgrades are substantially complete and there have been no significant issues.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Management has made certain judgments and estimates that affect the reported amounts and other disclosures in our financial statements.

VALUATION OF INVENTORY. We closely monitor conditions that could impact valuation of inventories or otherwise risk impairment of our assets. Inventories of logs, OSB, specialty plywood, veneer and lumber products are valued at the lower of average cost and net realizable value. We base our estimate of market value on sales orders that exist at balance sheet reporting dates. Prices fluctuate over time and it is probable that market values at the time of eventual sale will differ from our estimates.

LOSS CONTINGENCIES. Our estimates of our loss contingencies for legal proceedings and product warranty claims are based on various judgments and assumptions regarding the potential resolution or disposition of the underlying claims and associated costs.

VALUATION OF LONG-LIVED ASSETS. On a quarterly basis, we review the long-lived assets held and used by us (primarily property, plant, and equipment, construction in progress and timber and logging roads) for impairment. Assessing the appropriate valuation of the affected assets requires us to make judgments, assumptions and estimates. In general, write-downs for impairment are recognized when the book values exceed our estimate of the undiscounted future net cash flows associated with the affected assets. During 2003, we recorded a $13.3 million write-down of capital assets related to a planned expansion of the Grande Prairie OSB plant. The planned expansion involves the addition of a second manufacturing line alongside the existing OSB plant to produce a further 400 mmsf per year of OSB and specialty products, and the construction of a hardwood sawmill. The Company has been unsuccessful in its attempt to secure additional long-term timber tenures. Without confirmation of a secured timber supply, the Company has decided not to pursue the expansion of the Grande Prairie facility at this time. We reviewed the carrying value of our other capital assets, including construction in progress, at December 31, 2004, and believe that our reported values are reasonable based on the current circumstances.

AMORTIZATION. Amortization of property, plant and equipment is principally based on the units of production method where the cost of equipment is amortized over the estimated units that will be produced during a conservative estimate of its useful life.

GOODWILL. Goodwill and other intangible assets that are deemed to have an indefinite life are no longer amortized. However, these indefinite life assets are tested for impairment on an annual basis, and otherwise when indicators of impairment are determined to exist, by applying a fair value based test. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgments at many points during the analysis. In testing for potential impairment, the estimated fair value of the reporting unit, as determined based upon cash flow forecasts, is compared to the book value of the reporting unit. The key assumptions in estimating these cash flows include future production volumes and pricing of commodity products and future estimates of expenses to be incurred. Our assumptions regarding pricing are based upon the average pricing over the commodity cycle due to the inherent volatility of commodity product pricing. These prices are estimated from information gathered from industry research firms, research reports published by investment analysts and other published forecasts. Our estimates of expenses are based upon our long-range internal planning models and our expectation that we will reduce product costs that will offset inflationary impacts.

Due to the numerous variables associated with our judgments and assumptions relating to the valuation of assets in these circumstances, and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates of the related impairment charges, if any, are subject to substantial uncertainties and, as additional information becomes known, we may change our estimates significantly.

PENSION PLANS. Most of our Canadian employees and U.S. employees participate in defined benefit pension plans sponsored by the Company. We account for the consequences of our sponsorship of these plans in accordance with accounting principles generally accepted in Canada and the U.S., which require us to make actuarial assumptions that are used to calculate the related assets, liabilities and expenses recorded in our financial statements. While we believe we have a reasonable basis for these assumptions, which include assumptions regarding long-term rates of return on plan assets, life expectancies, rates of increase in salary levels, rates at which future values should be discounted to determine present values and other matters, the amounts of our pension related assets, liabilities and expenses recorded in our financial statements would differ if we used other assumptions. See further discussion related to pension plans in Note 18 of the Notes to the consolidated financial statements included elsewhere in this prospectus.

FUTURE INCOME TAX ASSETS. We record future income tax assets, including the potential tax benefit of operating loss carry-forwards, and future income tax liabilities. The amounts that we record for these assets and liabilities are based upon various judgments, assumptions and estimates, including judgments regarding the tax rates that will be applicable to the future income tax amounts, the likelihood that we will generate sufficient taxable income or gain to utilize future income tax assets. Due to the numerous variables associated with our judgments, assumptions and estimates relating to the valuation of our future income tax assets and liabilities, and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates are subject to uncertainties and, as additional information becomes known, we may change our estimates.

U.S. GAAP RECONCILIATION

Our consolidated financial statements have been prepared in accordance with Canadian GAAP. To the extent applicable to our consolidated financial statements, Canadian GAAP conforms in all material respects with U.S. GAAP, except as described in Note 24 to our consolidated financial statements included elsewhere in this prospectus.

OUTLOOK

Strong homebuilding activity and low inventories in key markets led to record high OSB prices in 2004 and allowed us to generate excellent operating earnings. We believe that OSB pricing will remain strong in the near term as low mortgage rates and improved economic growth will support a relatively high number of North American housing starts and home renovations. In 2005, we should also continue to benefit from increased OSB production at our High Level OSB facility and from having a full year's production from the four OSB plants acquired during 2004. Meanwhile, we will continue to maintain our operational focus on productivity improvements, cost reductions and increasing the volume of value-added ***AinsworthEngineered***® wood products.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Ainsworth Lumber Co. Ltd. is responsible for the preparation as well as the integrity of the accompanying consolidated financial statements and all related financial data contained in the annual report. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and necessarily the best estimates and judgements of management. The Company has developed a system of internal controls over the financial reporting process designed to provide reasonable assurance that relevant and reliable information is produced.

The financial statements have been examined by the Company's auditors, Deloitte & Touche LLP, and they have issued their report thereon.

The Board of Directors is responsible for overseeing management in the performance of its responsibilities for financial reporting. The Board exercises its responsibility through the Audit Committee comprising three Directors, who are not officers of the Company.

The Committee meets from time to time with management and the Company's auditors to review the financial statements and matters relating to the audit. The Company's auditors have full and free access to the Audit Committee. The Committee reports its findings to the Board of Directors for their consideration in approving the consolidated financial statements for issuance to the shareholders.

February 28, 2005

Brian Ainsworth
Chairman & Chief Executive Officer

Robert Allen
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Shareholders of Ainsworth Lumber Co. Ltd.

We have audited the consolidated balance sheets of Ainsworth Lumber Co. Ltd. as at December 31, 2004 and 2003 and the consolidated statements of operations and retained earnings and cash flows for each of the years in the three year period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and December 31, 2003 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion.

Deloitte & Touche LLP

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, British Columbia
February 28, 2005

CONSOLIDATED BALANCE SHEETS

As at December 31 (Thousands of Canadian dollars)

	NOTE	2004	2003
ASSETS			
Current Assets			
Cash and cash equivalents	4	**$ 212,624**	$ 194,054
Accounts receivable, net of allowance for doubtful accounts of $320 (2003 – $320)		**55,034**	30,242
Inventories	5	**87,582**	53,153
Investment tax credit recoverable	6	**—**	30,060
Prepaid expenses		**8,349**	3,433
		363,589	310,942
Capital Assets	7	**926,204**	293,502
Other Assets	9	**47,702**	23,277
Goodwill	2	**103,516**	—
		$1,441,011	$ 627,721
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable		**$ 42,973**	$ 17,985
Accrued liabilities		**60,207**	29,776
Income taxes payable		**41,181**	3,494
Current portion of long-term debt	12	**274**	250
		144,635	51,505
Reforestation Obligation	11	**4,470**	4,802
Long-term Debt	12	**916,625**	352,227
Future Income Taxes	15	**74,949**	47,396
		1,140,679	455,930
Commitments and Contingencies	17 and 19		
SHAREHOLDERS' EQUITY			
Capital stock	13	**55,827**	53,110
Contributed surplus		**—**	118
Cumulative translation adjustment	1(b)	**(34,237)**	—
Retained earnings		**278,742**	118,563
		300,332	171,791
		$1,441,011	$ 627,721

See accompanying Notes to the Consolidated Financial Statements.

APPROVED BY:

Brian Ainsworth
Director

Catherine Ainsworth
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Years ended December 31 (Thousands of Canadian Dollars, except per share data)

	Note	2004	2003	2002
Sales		$ **909,922**	$ 542,987	$ 430,348
Costs and Expenses				
Costs of products sold		**498,246**	322,829	338,261
Selling and administration		**31,014**	18,167	21,908
Amortization of capital assets	7	**53,852**	32,972	31,960
Write-down of capital assets	7	**793**	13,696	1,044
		583,905	387,664	393,173
Operating Earnings		**326,017**	155,323	37,175
Finance Expense	14			
Interest charges		**(40,723)**	(51,177)	(57,151)
Amortization charges		**(3,234)**	(4,687)	(5,349)
Loss on repurchase of debt	12	**(106,198)**	(81)	—
		(150,155)	(56,125)	(62,500)
Other Income (Expense)		**(3,351)**	(508)	2,901
Foreign Exchange Gain on Long-Term Debt		**73,815**	76,932	4,279
Income (Loss) Before Income Taxes		**246,326**	175,622	(18,145)
Income Tax Expense (Recovery)	15			
Current		**85,597**	11,876	1,777
Future		**(14,353)**	40,096	(2,049)
		71,244	51,972	(272)
Net Income (Loss)		**175,082**	123,650	(17,873)
Retained Earnings (Deficit), Beginning of Year		**118,563**	(5,087)	12,786
Dividends Paid	16	**(14,660)**	—	—
Repurchase of Capital Stock	13	**(243)**	—	—
Retained Earnings (Deficit), End of Year		$ **278,742**	$ 118,563	$ (5,087)
Basic and Diluted Earnings (Loss) Per Share		$ **11.98**	$ 8.49	$ (1.23)
Weighted-Average Number of Shares Outstanding		**14,612,506**	14,558,707	14,544,800

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (Thousands of Canadian dollars)

	Note	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (Loss) from continuing operations		**$ 175,082**	$ 123,650	$(17,873)
Amounts not requiring an outlay of cash				
Amortization of capital assets	7	**53,852**	32,972	31,960
Amortization of financing costs		**1,869**	2,568	2,567
Amortization of debt discount		**1,109**	852	854
Unrealized foreign exchange (gain) loss; long-term debt		**(73,815)**	(76,932)	(4,279)
Loss on repurchase of debt		**106,198**	81	—
Amortization of consent and commitment fees		**257**	1,447	1,929
Non-cash stock based compensation		**2,640**	(230)	29
Loss (gain) on disposal of capital assets		**25**	400	7
Writedown of capital assets	7	**793**	13,296	1,044
Write-off of security deposits on lease termination		**—**	—	980
Adjustment to deferred pension assets		**(8,141)**	803	9
Change in non-current reforestation obligation		**(332)**	168	(218)
Utilization of investment tax credit	6	**30,060**	7,120	—
Future income taxes		**(14,353)**	40,096	(2,049)
Change in non-cash operating working capital	22	**89,184**	(12,669)	(7,530)
Cash provided by operating activities		**364,428**	133,622	7,430
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in Voyageur Panel Limited	2	**(296,300)**	—	—
Acquisition of Cash of Voyageur Panel Limited		**51,142**	—	—
Investment in Minnesota OSB Facilities	3	**(584,847)**	—	—
Additions to capital assets		**(17,987)**	(8,236)	(14,113)
Decrease (increase) in other assets		**(1,555)**	(144)	(161)
Proceeds on disposals of capital assets		**40**	151	38
Cash used in investing activities		**(849,507)**	(8,229)	(14,236)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of Senior Secured Notes	12	**996,387**	—	—
Redemption of Senior Secured Notes	12	**(451,305)**	(11,985)	—
Financing costs	12	**(26,214)**	—	—
Dividends Paid	16	**(14,660)**	—	—
Repurchase of Common shares	13	**(284)**		
Increase (decrease) in capital lease obligations		**(275)**	451	39
Cash (used in) provided by financing activities		**503,649**	(11,534)	39
NET CASH INFLOW (OUTFLOW)		**18,570**	113,859	(6,767)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**194,054**	80,195	86,962
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 212,624**	$ 194,054	$ 80,195
Supplemental Disclosure of Cash Flow Information:				
Interest (including commitment, redemption premium and loan fees) paid		**$ 138,351**	$ 52,974	$ 58,316
Income taxes paid		**$ 16,443**	$ 1,567	$ 726

See accompanying Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31 (Figures in tables are in thousands of Canadian dollars unless indicated otherwise)

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in Canadian dollars in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include estimates and assumptions made by management. These estimates and assumptions affect the reported amounts of assets and liabilities and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

Canadian GAAP differs in certain respects from accounting principles generally accepted in the United States ("U.S. GAAP") as explained in Note 24.

The significant accounting policies are:

(a) Basis of consolidation

These consolidated financial statements include the accounts Ainsworth Lumber Co. Ltd. (the "Company") and all of its wholly-owned subsidiaries which include Ainsworth Engineered Corp. (amalgamated with Voyageur Panel Limited on May 19, 2004), Ainsworth Engineered (USA), LLC and Ainsworth Engineered Canada Limited Partnership (Note 26). Ainsworth Engineered Corp. was amalgamated with Voyageur Panel Limited on May 19, 2004. Ainsworth Engineered (USA), LLC owns and operates the Minnesota OSB facilities which were acquired on September 22, 2004.

The Company accounts for its 50% interest in the High Level Project (Note 8) on a proportionate consolidation basis.

(b) Foreign currency translation

The operations of Ainsworth Engineered (USA), LLC are considered to be a self-sustaining foreign operation and the financial statements are translated using the current rate method. Assets and liabilities are translated at the rate of exchange in effect at the balance sheet date and revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred. Unrealized translation gains and losses are deferred and included as a separate component of shareholders equity. For the year ended December 31, 2004, the Company recorded an unrealized translation loss of $34,237,000.

(c) Cash and cash equivalents

Cash and cash equivalents generally consist of cash balances with banks and investments in high grade commercial paper and bank notes with original maturities of less than three months.

(d) Inventories

Logs, lumber and panel products are valued at the lower of average cost and net realizable value. Materials and supplies are valued at cost.

(e) Capital Assets

Property, plant and equipment are stated at cost, including interest incurred for major projects during the period of construction, and start-up costs. The cost of renewals and betterments that extend the useful life of the property, plant and equipment is also capitalized. The cost of repairs and replacements is charged to expense as incurred. Oriented strand board facilities are amortized on the units-of-production method based on the estimated useful life of the assets at normal production levels over 15 years. Other panel product mills, the lumber remanufacturing plant and other assets are amortized on the declining balance basis at annual rates based on the estimated useful lives of the assets as follows:

Asset	Rate
Buildings	5%
Machinery and equipment	12% – 20%
Office equipment	15%

Timber rights and logging roads are stated at cost and are amortized on the basis of the volume of timber cut. The Company reviews the carrying values of its capital assets on a regular basis, by reference to estimated future operating results and undiscounted net cash flows. If the carrying value of these assets exceeds estimated net recoverable amounts, a provision for impairment will be made.

(f) Financing and debt discount costs
Costs relating to long-term debt are deferred and amortized on the straight-line basis over the term of the related debt.

(g) Reforestation obligation
Timber is harvested under various licenses issued by the Provinces of British Columbia and Alberta. The future estimated reforestation obligation is accrued and charged to earnings on the basis of the volume of timber cut.

(h) Foreign currency transactions
Transactions denominated in U.S. dollars have been translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the year-end exchange rate. Exchange gains and losses, including unrealized foreign exchange gains and losses on long-term debt, are included in earnings.

(i) Earnings per share
Earnings per share is calculated by dividing net income (loss) by the weighted average number of voting common shares outstanding during the year.

(j) Income taxes
Income taxes are accounted for using the asset and liability method. Future income taxes reflect the tax effect, using substantively enacted tax rates, of differences between the financial statement carrying amount and their respective tax bases of assets and liabilities and the anticipated benefit of losses carried forward for income tax purposes. The Company's research and development activities may be eligible to earn Investment Tax Credits. When there is reasonable assurance that the Investment Tax Credits will be received, they are accounted for using the cost reduction method whereby such credits are deducted from the expenditures or assets to which they relate.

(k) Revenue recognition
Revenue is recognized when the significant risks and rewards of ownership are transferred, which is generally at the time of shipment at agreed prices to credit-approved customers.

The Company has presented freight and other distribution costs as sales and costs of products sold in the statement of operations and reclassified prior periods' presentation accordingly. Previously these costs were presented as a reduction of sales in accordance with industry practice at the time. The effect of the change was to increase sales and cost of sales by $82,468,500 for the year ended December 31, 2004, $61,913,500 for 2003, and $74,293,000 for 2002.

(l) Employee benefit plans
The Company has two defined benefit plans providing pension benefits to its British Columbia salaried employees and employees of the Minnesota Oriented Strand Board ("OSB") facilities. The Company accrues the costs and related obligations for the defined benefit plans using the projected benefit actuarial method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. The difference between costs of employee benefits charged against earnings and the Company's contributions to the plans, which are made in accordance with actuarial recommendations and pension commission regulations, is included in accrued benefit asset on the balance sheet. In determining pension expense, the unrecognized pension surplus or liability, adjustments arising from changes in actuarial assumptions, and the excess of net actuarial gains or losses over 10% of the greater of the benefit obligation and the market value of the plan assets is amortized on a straight-line basis over the expected average remaining service life of the employee group. The plan assets are valued at market values.

(m) Goodwill
Goodwill represents the excess cost of an investment over the fair value of the net assets acquired. Goodwill is not amortized and is subject to an annual assessment for impairment primarily by applying a fair value based test at the reporting unit level. The fair value of the reporting unit is estimated using the expected present value of future

discounted cash flows. The Company also considers projected future operating results, trends and other circumstances in making such evaluations. An impairment loss would be recognized to the extent the carrying amount of goodwill exceeds the fair value of goodwill. The Company did not recognize any impairment to goodwill in 2004.

(n) Comparative figures
Certain comparative figures have been reclassified to conform to the current year presentation.

2. ACQUISITION OF VOYAGEUR PANEL LIMITED

On May 19, 2004, the Company completed the acquisition of 100% of the voting shares of Voyageur Panel Limited ("Voyageur") for a purchase price of US$206.7 million (CDN$284.5 million) paid in cash plus additional consideration, based on realization of oriented strand board sales prices and volumes at Voyageur between closing the transaction and December 31, 2004. Management has estimated that US$9.1 (CDN$11.8 million) has accrued to the vendors and this has been recognized as a cost of the acquisition.

The acquisition of Voyageur has been accounted for using the purchase method, and the operating results are included in the consolidated statement of operations from the date of the acquisition. The amounts allocated to specific identifiable tangible and intangible assets and liabilities at May 19, 2004 are as follows.

Net Assets acquired:	
Current assets	$ 76,937
Other assets	1,170
Capital assets	166,084
Total assets acquired	244,191
Current liabilities	9,470
Future income taxes	41,905
Other long-term liabilities	32
Total liabilities acquired	51,407
Net identifiable assets acquired	192,784
Goodwill	103,516
Total purchase price	$ 296,300

3. ACQUISITION OF THE MINNESOTA OSB FACILITIES

On September 22, 2004, the Company acquired from Potlatch Corporation the assets and certain related working capital associated with three OSB manufacturing facilities (the "Minnesota OSB facilities") located in the northern Minnesota towns of Bemidji, Cook and Grand Rapids at a purchase price of approximately US$455.5 million (approximately CAD$584.8 million).

The acquisition of the Minnesota OSB facilities has been accounted for using the purchase method, and the operating results are included in the consolidated statement of operations from the date of the acquisition. The amounts allocated to specific identifiable tangible and intangible assets and liabilities at September 22, 2004 are as follows.

Net Assets acquired:	
Current assets	$ 48,127
Capital assets	536,720
Total assets acquired	584,847
Total liabilities acquired	—
Total purchase price	$ 584,847

4. CASH AND CASH EQUIVALENTS

	2004	2003
Cash	$ 76,040	$ 2,506
Cash equivalents	136,548	191,548
	$ 212,624	$ 194,054

5. INVENTORIES

	2004	2003
Logs	$ 23,339	$ 21,362
Panel products	23,152	12,598
Materials and supplies	41,091	19,193
	$ 87,582	$ 53,153

6. INVESTMENT TAX CREDIT RECOVERABLE

At December 31, 2003, the Company recognized an unclaimed special investment tax credit in respect of its investment in the Grande Prairie wood processing facilities. The Company recorded the tax credit as a $37,180,000 reduction in the capital cost of the Grande Prairie assets. In 2004, $30,060,000 (2003 – $7,120,000) was utilized as a reduction to federal taxes payable.

7. CAPITAL ASSETS

		2004		2003
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Property, plant and equipment				
Panel product mills	$ 1,205,743	$ 320,772	$ 884,971	$ 273,178
Land	3,819	—	3,819	1,964
Other	21,748	14,218	7,530	3,158
Construction in progress	10,338	—	10,338	1,030
	1,241,648	334,990	906,658	279,330
Timber and logging roads				
Timber rights and development costs	24,229	8,110	16,119	11,055
Logging roads	12,029	8,602	3,427	3,117
	36,258	16,712	19,546	14,172
	$ 1,277,906	$ 351,702	$ 926,204	$ 293,502

	2004	2003	2002
Amortization expense for the year			
Property, plant and equipment	$ 51,853	$ 31,128	$ 29,560
Timber and logging roads	1,729	1,844	2,400
	$ 53,582	$ 32,972	$ 31,960

In December 2003, the Company provided a write-down of capital assets of $13.3 million in costs relating to the construction and design for a proposed expansion of the Grande Prairie OSB operations. The Company had been unsuccessful in its attempt to secure additional long-term timber tenure. Without confirmation of a secure timber supply, the Company decided not to pursue the expansion of the Grande Prairie facility at this time.

8. THE HIGH LEVEL PROJECT

The Company jointly developed and operates an oriented strand board ("OSB") facility in High Level, Alberta. The Company's proportionate (50%) share of major assets including plant and equipment is held by a bare trustee corporation, on behalf of the Company, together with the 50% interest of a co-venturer in such assets.

Once the OSB production process at the High Level facility is complete, the production is allocated to the respective venturers at cost. Each respective venturer then sells their respective production to third parties. The venture does not generate revenue or net income.

The following is a summary of the Company's proportionate interest in the financial position of the High Level Project:

	2004	2003
Assets		
Receivables	$ 1,294	$ 752
Inventories	8,923	7,641
Prepaid expenses	393	366
Capital assets	125,171	123,676
Current Liabilities		
Excess of cheques issued over cash in bank	1,558	1,814
Accrued liabilities and accounts payable	2,906	3,609

By agreement between the Company and its co-venturer, if the co-venturer does not pay its share of accounts payable and accrued liabilities, the Company may pay such amounts and recover them from the co-venturer's share of production. The co-venturer's share of accounts payable and accrued liabilities amounted to $2,906,000 as at December 31, 2004 and $3,609,000 as at December 31, 2003.

9. OTHER ASSETS

	2004	2003
Advances and deposits	$ 7,092	$ 5,537
Accrued pension benefit asset (Note 18)	12,297	4,156
Unamortized financing costs	28,313	13,584
	$ 47,702	$ 23,277

10. LOAN FACILITIES

As at December 31, 2004 the Company had outstanding letters of credit of $6,561,000 (2003 – $6,228,000) to support the Company's ongoing business operations. The Company had an unutilized $7,250,000 foreign exchange and future contract credit facility at December 31, 2004.

11. REFORESTATION OBLIGATION

	2004	2003
Balance at beginning of year	$ 6,064	$ 5,679
Expense for the year	1,157	2,227
	7,221	7,906
Paid during the year	(1,593)	(1,842)
Balance at end of year	$ 5,628	$ 6,064
Current, included in accrued liabilities	$ 1,158	$ 1,262
Long-term	4,470	4,802
	$ 5,628	$ 6,064

12. LONG-TERM DEBT

On March 3, 2004, the Company completed a refinancing of its Senior Secured Notes and issued US$210 million 6.75% Senior Unsecured Notes. Financing costs of $6.2 million relating to this debt have been deferred in other assets and amortized over the life of the debt. Together with its existing cash balance, the Company utilized the proceeds from the notes to repurchase US$87.1 million of its 13.875% notes and US$182.2 million of its 12.5% notes realizing a total loss of $106.2 million. The loss is comprised of a $15.5 million write-off of deferred debt discount and financing costs, an $83.5 million redemption premium, and payment of consent fees of $7.2 million.

On May 19, 2004, the Company issued US$110 million 6.75% Senior Unsecured Notes at a discount of US$11 million. Financing costs of $4.9 million relating to this debt have been deferred in other assets and amortized over the term of the debt.

On September 22, 2004, the Company issued US$275 million 7.25% Senior Unsecured Notes and US$175 million Senior Unsecured Floating Rate Notes. Financing costs of $15.1 million relating to this debt have been deferred in other assets and amortized over the term of the debt.

The Company's long-term debt is guaranteed by Ainsworth Engineered Corp., Ainsworth Engineered (USA), LLC, and Ainsworth Engineered Canada Limited Partnership (Note 26). The details of the outstanding long-term debt at December 31, 2004 are as follows:

	2004	2003
U.S.$275,000,000 Senior Unsecured Notes due October 1, 2012 with interest payable semi-annually at 7.25% per annum	**$ 330,550**	$ —
U.S.$175,000,000 Senior Unsecured Notes due October 1, 2010 with interest payable quarterly at LIBOR plus 3.75% per annum	**210,350**	—
U.S.$210,000,000 Senior Unsecured Notes due March 15, 2014 with interest payable semi-annually at 6.75% per annum	**252,420**	—
U.S.$110,000,000 Senior Unsecured Notes due March 15, 2014 with interest payable semi-annually at 6.75% per annum	**132,220**	—
U.S.$2,351,000 (2003 – U.S.$184,600,000) Senior Unsecured Notes due July 15, 2007 with interest payable semi-annually at 12.5% per annum	**2,826**	239,334
U.S.$2,000,000 (2003 – U.S.$89,085,000) Senior Unsecured Notes due July 15, 2007 with interest payable quarterly at 13.875% per annum	**2,404**	115,499
Capital lease obligations	**274**	549
	931,044	355,382
Unamortized deferred debt discount	**(14,145)**	(2,905)
	916,899	352,477
Current portion	**(274)**	(250)
	$ 916,625	$ 352,227

CREDIT FACILITY

On March 15, 2004, the Company established a five-year $50,000,000 revolving credit facility with interest rates of prime plus 0.5% or the bankers' acceptance rate plus 2.0%. At December 31, 2004 this facility was unutilized.

13. CAPITAL STOCK

(a) The Company's authorized share capital is as follows:

(i) 100,000,000 common shares without par value;

(ii) 1,500,000 Class B non-voting common shares without par value, of which 717,500 have been designated for an employee participation share plan. The designated Class B common shares are convertible into the number of common shares equivalent to the ratio of a) the greater of future appreciation in market value of the common shares from the date the Board of Directors of the Company resolve to issue the Class B common shares and the issue price of the Class B common shares, divided by b) the market value of the common shares when the conversion and completion of vesting occurs on the fifth anniversary of issuance of the Class B common shares. Vesting occurs equally upon the third, fourth and fifth anniversaries; and

(iii) 100,000,000 preferred shares without par value, of which 300,000 have been designated Series 1 and 4,000,000 have been designated Series 2. The Series 1 preferred shares are non-voting, redeemable at the issue price of $10 and are entitled to a 6% non-F-13 cumulative dividend. The Series 2 preferred shares are non-voting with a cumulative dividend rate equal to 72% of bank prime rate and are redeemable by the Company at any time or retractable by the holder any time after five years from the date of issue.

(b) The Company's issued share capital is as follows:

	Common Shares		Class B Common Shares		Total
	Shares	Amount	Shares	Amount	Amount
Balance at December 31, 2002	14,544,800	$ 53,016	447,500	$ 67	$ 53,083
Exchange of Class B common shares for common shares	20,148	78	(222,500)	(33)	45
Cancellation of Class B common shares	—	—	(117,500)	(18)	(18)
Balance at December 31, 2003	14,564,948	$ 53,094	107,500	$ 16	$ 53,110
Exchange of Class B common shares for common shares	95,116	2,733	(107,500)	(16)	2,717
Repurchase of Class B common shares	(10,924)	—	—	—	—
Balance at December 31, 2004	14,649,140	$ 55,827	—	$ —	$ 55,827

(c) Repurchase of common shares
On June 29, 2004, the Company repurchased 10,924 common shares at a purchase price of $26.03 per share. The excess of $0.2 million between the purchase price and the weighted average cost was charged to retained earnings.

(d) Employee Participation Share Plan
On March 29, 2004, the Company issued 95,116 common shares to the holders of 107,500 Class B common shares issued on June 25, 1999 who became entitled under the Employee Participation Share Plan ("the Plan") to receive common shares in exchange for those Class B common shares. The issue of the common shares resulted in a charge to earnings of $2,640,000. As at December 31, 2004, there are no issued and outstanding Class B common shares.

During the year ended December 31, 2003, the Company issued 20,148 common shares to the holders of 222,500 Class B common shares issued on December 18, 1996 and August 11, 1998 who became entitled under the Employee Participation Share Plan to receive common shares in exchange for those Class B common shares. The Company then cancelled 55,000 Class B common shares issued on December 18, 1996 and August 11, 1998 pursuant to the Plan and also cancelled 62,500 Class B common shares issued on June 25, 1999.

14. FINANCE EXPENSE

	2004	2003	2002
Current debt	$ 746	$ 35	$ 276
Loss on Repurchase of Debt (Note 12)	106,198	81	—
Long-term debt	43,211	56,009	62,224
	$ 150,155	$ 56,125	$ 62,500

Finance expense on long-term debt includes the amortization of deferred financing costs, amortization of deferred debt discounts, and amortization of consent and commitment fees as follows: $1,868,923, $1,108,511, and $256,550 respectively, for the year ended December 31, 2004; $2,568,062, $852,275, and $1,446,281 respectively, for the year ended December 31, 2003; and $2,566,750, $853,692, and $1,929,035 respectively, for the year ended December 31, 2002.

15. INCOME TAXES

Reconciliation of the Company's effective income tax rate from Canadian statutory tax rates are as follows:

	2004	%	2003	%	2002	%
Income tax expense (recovery) at statutory rate	$ 86,953	35.3	$ 61,995	35.3	$ (6,841)	(37.7)
Large corporation tax	—	—	1,123	0.6	1,777	9.8
Non-taxable foreign exchange gain on long-term debt	(12,996)	(5.3)	(13,578)	7.7	(807)	(4.4)
Reduction in statutory income tax rates	(700)	(0.3)	—	—	—	—
Rate differentials between jurisdictions	(3,033)	(1.3)	—	—	—	—
Other non (taxable) deductible items	1,020	0.4	2,432	1.4	5,599	30.9
Tax expense (recovery)	$ 71,244	28.8	$ 51,972	45.0	$ (272)	(1.4)
Comprised of:						
Current taxes	$ 85,597		$ 11,876		$ 1,777	
Future income taxes	(14,353)		40,096		(2,049)	
	$ 71,244		$ 51,972		$ (272)	

Temporary timing differences and tax loss carryforwards which give rise to the net future income tax liability are as follows:

	2004	2003
Temporary timing differences		
Future income tax assets		
Eligible capital expenditures	$ 3,305	$ 3,454
Accruals not currently deductible	3,231	2,298
Acquisition costs	2,707	—
Loss on repurchase of long-term debt	22,963	—
Tax loss carryforwards	18,753	1,950
Future income tax assets	48,252	7,702
Future income tax liabilities		
Depreciable capital assets	103,907	45,679
Deferred pension costs	4,270	1,463
Foreign exchange gain on long-term debt	14,577	—
Financing costs	447	7,956
Future income tax liabilities	123,201	55,098
Future income tax liability, net	$ 74,949	$ 47,396

The Company has non-capital tax loss carryforwards of approximately $54,000,000 which expire as follows:

2008	$ 21,191
2009	20,871
2010	11,938
	$ 54,000

16. DIVIDENDS

On September 7, 2004 the Company paid a cash dividend of $1.00 per common share to holders of record of common shares as of the close of business on August 24, 2004.

17. COMMITMENTS

The Company is committed to capital and operating lease payments in respect of premises and equipment as follows:

	Capital Leases	Operating Leases
2005	$ 296	$ 4,428
2006	—	3,859
2007	—	2,320
2008	—	1,423
2009	—	1,241
Total minimum lease payments	$ 296	$ 13,271
Imputed Interest	22	
Capital lease obligations	$ 274	

Rent expense was $5,627,000, $4,317,298 and $4,823,044 for 2002, 2003 and 2004, respectively.

The Company has entered into agreements with suppliers of energy. The Company's Grande Prairie and High Level OSB facilities have established fixed price contracts to purchase 7.25 megawatts (MW) in 2005 and 3.5 MW in 2006. The total commitment arising from these agreements is $2,900,000 in 2005 and $1,300,000 in 2006.

During 2003, the Company entered into a fixed price propane supply agreement which expires September 30, 2006. Based on the current annual consumption, the estimated obligation in 2005 is $1,725,000 and $1,365,000 in 2006.

18. PENSION PLANS

The Company maintains two defined benefit pension plans for certain salaried and certain hourly employees in British Columbia and Minnesota. The Company was required to set-up a defined benefit pension plan for employees of its Minnesota OSB operations subsequent to the acquisition of the Minnesota OSB facilities.

The Company also participates in a multi-employer pension plan for hourly employees who are subject to a collective bargaining agreement and sponsors a Group Registered Retirement Savings Plan (RRSP) at two of its operations. The Company made Group RRSP contributions of $1,155,000 for 2002, $1,164,000 for 2003 and $1,413,500 for 2004.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the British Columbia pension plan for funding purposes was as of December 31, 2004, and the next required valuation will be as of December 31, 2007. The Company is currently having an actuarial valuation of the Minnesota plan as at September 30, 2004 completed.

Information about the Company's defined benefit pension plans is as follows:

	2004	2003	2002
Plan Assets			
Fair value at beginning of year	**$ 26,900**	$ 25,801	$ 27,718
Return on plan assets	**1,926**	1,757	1,923
Employer contributions	**11,713**	1,466	1,701
Benefits paid	**(2,130)**	(2,865)	(2,185)
Experience (loss) gain	**122**	741	(3,356)
Fair value at end of year	**38,531**	26,900	25,801
Accrued Benefit Obligation			
Balance at beginning of year	**33,659**	30,760	28,934
Current service cost	**2,221**	1,506	1,419
Interest cost	**2,549**	2,158	2,048
Benefits paid	**(2,130)**	(2,865)	(2,185)
Plan improvement cost	**2,057**	—	544
Minnesota OSB Facilities Plan Acquisition	**7,329**	—	—
Adjustment to discount rate	**2,968**	2,100	—
Actuarial gain	**1,450**	—	—
Balance at end of year	**50,102**	33,659	30,760
Net Deficit, End of Year	**$ (11,571)**	$ (6,759)	$ (4,959)
Accrued Pension Benefit Asset is Comprised of:			
Funded Status – Plan Deficit	**$ (11,571)**	$ (6,759)	$ (4,959)
Unamortized net actuarial loss	**16,186**	12,476	11,619
Unamortized transitional obligation	**(1,897)**	(2,070)	(2,245)
Unamortized past service cost	**9,579**	509	—
Plan improvement cost	—	—	544
Accrued Pension Benefit Asset (Note 9)	**$ 12,297**	$ 4,156	$ 4,959
Funded Status – Plan Deficit			
Accrued benefit obligation	**$ 50,102**	$ 33,659	$ 30,760
Fair value of plan assets	**38,531**	26,900	25,801
	$ (11,571)	$ (6,759)	$ (4,959)
Pension Expense is Comprised of:			
Accrual for Services	**$ 2,221**	$ 1,506	$ 1,419
Interest on accrued benefits	**2,549**	2,158	2,048
Interest on pension fund assets	**(1,926)**	(1,757)	(1,923)
Amortization amounts			
Unfunded liability (surplus)	**(173)**	(173)	(173)
Experience gains and losses	—	503	336
Past service costs	**318**	32	—
Gain (Loss) on Settlement	**584**	—	—
	$ 3,573	$ 2,269	$ 1,707
Plan Assets			
Cash	**$ 8,420**	$ —	$ —
Canadian bonds and debentures	**15,352**	14,203	9,870
Canadian Common Shares	**8,728**	6,932	8,282
Canadian pooled equity funds	—	523	2,225
Global pooled equity funds	**3,349**	2,254	2,583
US Common Shares	**2,682**	—	—
US pooled equity funds	—	2,988	2,841
	$ 38,531	$ 26,900	$ 25,801

The significant weighted-average actuarial assumptions adopted in measuring the Company's accrued benefit obligations as at December 31 included the following:

	2004	2003	2002
Discount rate	**6.0%**	7.0%	7.0%
Expected long-term rate of return on plan assets	**7.0%**	7.0%	8.0%
Rate of compensation increase	**4.0%**	4.5%	4.5%

The significant weighted-average actuarial assumptions adopted in measuring the Company's benefit costs as at December 31 included the following:

	2004	2003	2002
Discount rate	**6.5%**	7.0%	7.0%
Expected long-term rate of return on plan assets	**7.0%**	7.0%	8.0%
Rate of compensation increase	**4.0%**	4.5%	4.5%

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the Company to its defined benefit pension plans and cash payments directly to beneficiaries, was $5,486,400 (2003 – $3,964,000).

19. CONTINGENCIES

Due to the nature of its business, the Company is involved in various legal actions. In the opinion of management, none of the claims are significant and any resulting liability would not have a material adverse effect on the Company's financial position or results of operations.

20. RELATED PARTY TRANSACTIONS

The Company had transactions with companies owned by or related to its officers and directors as follows:

	2004	2003	2002
Rental charges for mobile forestry and transportation equipment at normal commercial terms and prices	**$ 120**	$ 120	$ 120
Acquisition of capital assets	**—**	—	22
Amounts due from officers and companies with directors in common included in other assets	**490**	479	466
Amounts due to companies with directors in common included in accounts payable	**—**	—	2

Subsequent to year-end, the $490,000 due to the Company at December 31, 2004 was repaid.

21. SEGMENTED INFORMATION

The Company operates principally in Canada and the United States in one business segment, manufacturing wood panel products.

Sales attributed to countries based on location of customer are as follows:

	2004	2003	2002
Geographic sales information:			
Canada	$ 106,837	$ 94,277	$ 83,508
U.S.A.	763,952	410,212	298,379
Europe	9,641	8,067	8,339
Japan and other	29,492	30,431	40,122
	$ 909,922	$ 542,987	$ 430,348

Capital assets attributed to the countries based on location are as follows:

	2004	2003
Canada	$ 433,424	$ 293,502
United States	492,780	—
	$ 926,204	$ 293,502

Goodwill of $103,516,000 (Note 2) is attributable to the Acquisition of Voyageur Panel Canada Limited which is located in Canada.

22. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	2004	2003	2002
Accounts receivable	$ 14,236	$ (6,650)	$ (1,388)
Inventories	(4,358)	(2,247)	(5,440)
Prepaid expenses	(4,168)	(778)	(1,655)
Accounts payable and accrued liabilities	45,787	(6,608)	3,325
Income taxes payable	37,687	3,614	(2,372)
	$ 89,184	$ (12,669)	$ (7,530)

23. FINANCIAL INSTRUMENTS

(a) Financial and credit risk

The financial risk is the risk that the value of the Company's financial instruments will vary due to fluctuations in interest rates and foreign exchange rates, and the degree of volatility of these rates.

The Company does not have a significant exposure to any individual customer or counterparty. Concentrations of credit risk on trade accounts receivable are with customers in the forestry industry which are located in Canada and the United States.

(b) Fair values

The fair value of the Company's accounts receivable, accounts payable and accrued liabilities is estimated to approximate their carrying value due to the immediate or short term maturity of these financial instruments.

The fair value of the long-term debt is determined using quoted market values for the Company's Senior Secured Notes. The estimated fair value may differ from the amount which could be realized in an immediate settlement of the instruments.

The carrying value and fair value of the long-term debt are as follows:

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt				
Senior notes	**$ 916,625**	**$ 961,697**	$ 354,833	$ 414,041
Capital leases	**274**	**274**	549	549
	$ 916,899	**$ 961,971**	$ 355,382	$ 414,590

24. U.S. GAAP RECONCILIATION

As indicated in Note 1, these consolidated financial statements have been prepared in accordance with Canadian GAAP, which, in the case of the Company, conforms in all material respects with U.S. GAAP, except as set forth below:

(a) Adjustments to assets, liabilities and shareholders' equity

	2004	2003	2002
Total assets in accordance with Canadian GAAP	**$1,441,011**	$ 627,721	$ 555,052
Write-off of capitalized start-up costs[1]	**(7,361)**	(8,966)	(10,380)
Intangible asset, arising from minimum pension liability calculation[2]	**9,579**	509	—
Total assets in accordance with U.S. GAAP	**$1,443,229**	$ 619,264	$ 544,672
Total liabilities in accordance with Canadian GAAP	**$1,140,679**	$ 455,930	$ 506,681
Future income taxes relating to write-off: of capitalized start-up costs[1]	**(2,622)**	(3,194)	(3,700)
Minimum pension liability, net of tax effect[2]	**18,867**	7,273	6,447
Total liabilities in accordance with U.S. GAAP	**$1,156,924**	$ 460,009	$ 509,428
Total shareholders' equity in accordance with Canadian GAAP	**$ 300,332**	$ 171,791	$ 48,371
Change in retained earnings relating to:			
Write-off of capitalized start-up costs[1]	**(4,739)**	(5,772)	(6,680)
Accumulated other comprehensive loss[2]	**(9,288)**	(6,764)	(6,447)
Total shareholders' equity in accordance with U.S. GAAP	**$ 286,305**	$ 159,255	$ 35,244

(b) Adjustments to earnings

	2004	2003	2002
Net income (loss) in accordance with Canadian GAAP	**$ 175,082**	$ 124,355	$ (17,873)
Reversal of amortization of capitalized start-up costs, net of future income taxes[1]	**1,033**	677	874
Net income (loss) in accordance with U.S. GAAP	**176,115**	125,032	(16,999)
Minimum pension liability, net of tax (Note 24(c)(i))	**(2,524)**	(317)	(2,427)
Cumulative translation adjustment	**(34,237)**	—	—
Comprehensive income (loss) in accordance with U.S. GAAP (Note 24(c)(i))	**$ 139,354**	$ 124,715	$ (19,426)
Basic and diluted earnings (loss) per share in accordance with U.S. GAAP	**$ 12.05**	$ 8.59	$ (1.17)

[1] *Under U.S. GAAP, the direct operating losses arising during the start-up phase of the oriented strand board facilities, which were capitalized under Canadian GAAP, are charged against earnings.*

[2] *Under U.S. GAAP, the Company would recognize the difference between the unfunded accumulated pension benefit obligation and the accrued benefit asset (Note 18) as an additional minimum pension liability, and an equal amount as an intangible asset, subject to the following. If the additional liability exceeded unrecognized past service cost, the excess would be recognized as other comprehensive loss, net of any resulting tax benefits.*

(c) Other Information Regarding U.S. GAAP

(i) Statement of Financial Accounting Standards ("SFAS") No. 130, *Reporting Comprehensive Income*, issued under U.S. GAAP, requires the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income is net income plus certain other items that are recorded directly to shareholders' equity such as foreign currency translation adjustments and minimum pension liability. There is currently no requirement to disclose comprehensive income under Canadian GAAP.

Comprehensive loss arising from minimum pension liability:

	2004	2003	2002
Amount arising in year	$ **3,883**	$ 488	$ 3,734
Future income tax (recovery)	**(1,359)**	(171)	(1,307)
	2,524	317	2,427
Accumulated other comprehensive loss, beginning of year	**6,764**	6,447	4,020
Accumulated other comprehensive loss, end of year	$ **9,288**	$ 6,764	$ 6,447

(ii) In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which establishes accounting standards for all transactions in which an entity exchanges its equity instruments for goods and services. SFAS No. 123(R) focuses primarily on accounting for transactions with employees, and carries forward without change prior guidance for share-based payments for transactions with non employees.

SFAS No. 123(R) eliminates the intrinsic value measurement objective in APB Opinion 25 and generally requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The standard requires grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such cost must be recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period (which is usually the vesting period). The standard also requires us to estimate the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur.

We are required to apply SFAS No. 123(R) to all awards granted, modified or settled in our first reporting period under U.S. GAAP after June 15, 2005. We are also required to use either the "modified prospective method" or the "modified retrospective method."

Under the modified prospective method, we must recognize compensation cost for all awards granted after we adopt the standard and for the unvested portion of previously granted awards that are outstanding on that date.

Under the modified retrospective method, we must restate our previously issued financial statements to recognize the amounts we previously calculated and reported on a pro forma basis, as if the prior standard had been adopted. Under both methods, we are permitted to use either a straight line or an accelerated method to amortize the cost as an expense for awards with graded vesting. The standard permits and encourages early adoption. Management is analyzing the requirements of this new Statement and believes that its adoption will not have any significant impact on the Company's financial position, results of operations or cash flows.

(iii) In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4, which amends Chapter 4 of ARB No. 43 that deals with inventory pricing. The Statement clarifies the accounting for abnormal amounts of idle facility expenses, freight, handling costs, and spoilage. Under previous guidance, paragraph 5 of ARB No. 43, chapter 4, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs might be considered to be so abnormal, under certain circumstances, as to require treatment as current period charges. This Statement eliminates the criterion of "so abnormal" and requires that those items be recognized as current period charges. Also, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, although earlier application is permitted for fiscal years beginning after the date of issuance of this Statement. Retroactive application is not permitted. Management is analyzing the requirements of this new Statement and believes that its adoption will not have any significant impact on the Company's financial position, results of operations or cash flows.

(iv) In December 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets an amendment of APB No. 29. This Statement amends Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Statement specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. Management is analyzing the requirements of this new Statement and believes that its adoption will not have any significant impact on the Company's financial position, results of operations or cash flows.

25. SEPARATE FINANCIAL INFORMATION OF SUBSIDIARY GUARANTORS OF INDEBTEDNESS

On March 3, 2004, the Company issued US$210 million of 6.75% Senior Unsecured Notes to refinance its outstanding indebtedness at the time. On May 19, 2004, the Company issued US$110 million of 6.75% Senior Unsecured Notes to finance the acquisition of Voyageur. On September 22, 2004 the Company issued US$275 million in aggregate principal amount of 7.25% Senior Unsecured Notes and US$175 million in aggregate principal amount of Senior Unsecured Floating Rate Notes to finance the acquisition of the Minnesota OSB facilities. Under the terms of the Senior Notes referred to above, Ainsworth Engineered (USA), LLC, Ainsworth Engineered Corp. (formerly Voyageur) and Ainsworth Engineered Canada Limited Partnership became joint and several guarantors of the indebtedness (the "Guarantors"). The guarantee is a full and unconditional guarantee.

Additionally, if at any time a subsidiary of the Company constitutes a significant subsidiary, then such subsidiary will also become a guarantor of the indebtedness. If the Company were to fail to make a payment of interest or principal on its due date, the Guarantors are obligated to pay the outstanding indebtedness. At December 31, 2004, the Company had the following outstanding amounts related to the guaranteed indebtedness:

U.S.$275,000,000 Senior Unsecured Notes due October 1, 2012 with interest payable semi-annually at 7.25% per annum	$ 330,550
U.S.$175,000,000 Senior Unsecured Notes due October 1, 2010 with interest payable quarterly at LIBOR plus 3.75% per annum	210,350
U.S.$210,000,000 Senior Unsecured Notes due March 15, 2014 with interest payable semi-annually at 6.75% per annum	252,420
U.S.$110,000,000 Senior Unsecured Notes due March 15, 2014 with interest payable semi-annually at 6.75% per annum	132,220
	$ 925,540

The following condensed consolidating financial information reflects the summarized financial information of the Company and its Guarantors:

CONDENSED CONSOLIDATED BALANCE SHEET

as at December 31, 2004

	Ainsworth Lumber Co. Ltd. Non-Consolidated Parent Issuer	Ainsworth Engineered (USA) LLC Subsidiary Guarantor	Ainsworth Engineered Corp. Subsidiary Guarantor	Eliminations	Ainsworth Lumber Co. Ltd. Consolidated
Assets					
Cash	$ 193,521	$ 16,543	$ 2,560	$ —	$ 212,624
Other Current Assets	112,041	28,057	10,867	—	150,965
Capital Assets	280,085	495,656	88,913	61,550	926,204
Other Assets	43,673	4,029	—	—	47,702
Goodwill	—		—	103,516	103,516
Due from Parent Company	—	32,315	106,057	(138,372)	—
Investment in Subsidiary	921,841	—	—	(921,841)	—
	$ 1,551,161	$ 576,600	$ 208,397	$ (895,147)	$1,441,011
Liabilities and Shareholders' Equity					
Current Liabilities	125,466	3,491	15,678	—	144,635
Reforestation Obligation	4,470	—	—	—	4,470
Due to Parent Company	138,372	—	—	(138,372)	—
Long-Term Debt	916,625	—	—	—	916,625
Future Income Taxes	31,659	580	19,237	23,473	74,949
	1,216,592	4,071	34,915	(114,899)	1,140,679
Preferred Shares	—	—	25,999	(25,999)	—
Shareholders' Equity					
Capital Stock	55,827	1	55,419	(55,420)	55,827
Contributed Surplus	—	587,431	—	(587,431)	—
Cumulative Translation Adjustment	—	(34,237)	—	—	(34,237)
Retained earnings	278,742	19,334	92,064	(111,398)	278,742
	334,569	572,529	147,483	(754,249)	300,332
	$ 1,551,161	$ 576,600	$ 208,397	$ (895,147)	$1,441,011
Total assets in accordance with Canadian GAAP	$ 1,551,161	$ 576,600	$ 208,397	$ (895,147)	$1,441,011
Write-off of capitalized start-up costs[1]	(7,361)	—	—	—	(7,361)
Intangible asset, arising from minimum pension liability calculation[2]	9,579	—	—	—	9,579
Total assets in accordance with U.S. GAAP	$ 1,553,379	$ 576,600	$ 208,397	$ (895,147)	$1,443,229
Total liabilities in accordance with Canadian GAAP	1,216,592	4,071	34,915	(114,899)	1,140,679
Future income taxes relating to write-off of capitalized start-up costs[1]	(2,622)	—	—	—	(2,622)
Minimum pension liability, net of tax effect[2]	18,867	—	—	—	18,867
	$ 1,232,837	$ 4,071	$ 34,915	$ (114,899)	$1,156,924
Total shareholders' equity in accordance with Canadian GAAP	$ 300,332	$ 572,529	$ 147,483	$ (754,249)	$ 300,332
Change in retained earnings relating to					
Write-off of capitalized start-up costs[1]	(4,739)	—	—	—	(4,739)
Accumulated other comprehensive loss[2]	(9,288)	—	—	—	(9,288)
	$ 286,305	$ 572,529	$ 147,483	$ (754,249)	$ 286,305

[1] *Under U.S. GAAP, the direct operating losses arising during the start-up phase of the oriented strand board facilities, which were capitalized under Canadian GAAP, are charged against earnings.*

[2] *Under U.S. GAAP, the Company would recognize the difference between the unfunded accumulated pension benefit obligation and the accrued benefit asset (Note 18) as an additional minimum pension liability, and an equal amount as an intangible asset, subject to the following. If the additional liability exceeded unrecognized past service cost, the excess would be recognized as other comprehensive loss, net of any resulting tax benefits.*

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31, 2004

	Ainsworth Lumber Co. Ltd. Non-Consolidated Parent Issuer	Ainsworth Engineered (USA) LLC[a] Subsidiary Guarantor	Ainsworth Engineered Corp.[b] Subsidiary Guarantor	Eliminations	Ainsworth Lumber Co. Ltd. Consolidated
Sales	$ 702,407	$ 109,096	$ 98,419	—	$ 909,922
Costs and Expenses					
Costs of products sold	385,584	77,966	54,216	—	497,766
Selling and administration	29,030	1,613	851	—	31,494
Amortization of capital assets	40,736	6,559	6,557	—	53,852
Write-down of capital assets	793	—	—	—	793
	436,143	86,138	61,624	—	583,905
Operating Earnings	266,264	22,958	36,795	—	326,017
Finance Expense					
Interest charges	(40,723)	—	—	—	(40,723)
Amortization of finance charges	(3,234)	—	—	—	(3,234)
Loss on repurchase of long-term debt	(106,198)	—	—	—	(106,198)
	(150,155)	—	—	—	(150,155)
Equity in Earnings of Subsidiary	38,110	—	—	(38,110)	—
Other Income (Expense)	(4,163)	715	97	—	(3,351)
Foreign Exchange Gain on Long-Term Debt	73,815	—	—	—	73,815
Income Before Income Taxes	223,871	23,673	36,892	(38,110)	246,326
Income Tax Expense (Recovery)	48,789	4,339	18,116	—	71,244
Net Income	$ 175,082	$ 19,334	$ 18,776	$ (38,110)	$ 175,082
Net income in accordance with Canadian GAAP	$ 175,082	$ 19,334	$ 18,776	$ (38,110)	$ 175,082
Reversal of amortization of capitalized start-up costs, net of future income taxes[1]	1,033	—	—	—	1,033
Net income in accordance with U.S. GAAP	$ 176,115	$ 19,334	$ 18,776	$ (38,110)	$ 176,115

[a] *Statement of operations for the period from September 22, 2004 to December 31, 2004.*

[b] *Statement of operations for the period from May 19, 2004 to December 31, 2004.*

[1] *Under U.S. GAAP, the direct operating losses arising during the start-up phase of the oriented strand board facilities, which were capitalized under Canadian GAAP, are charged against earnings.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2004

	Ainsworth Lumber Co. Ltd. Non-Consolidated Parent Issuer	Ainsworth Engineered (USA) LLC[a] Subsidiary Guarantor	Ainsworth Engineered Corp.[b] Subsidiary Guarantor	Eliminations	Ainsworth Lumber Co. Ltd. Consolidated
Cash Flows from Operating Activities					
Income (Loss) from continuing operations	$ 175,082	$ 19,334	$ 18,776	$ (38,110)	$ 175,082
Amounts not requiring an outlay of cash	—				—
Amortization of capital assets	40,736	6,559	6,557	—	53,852
Amortization of financing costs	1,869	—	—	—	1,869
Amortization of debt discount	1,109	—	—	—	1,109
Unrealized foreign exchange (gain) loss; long-term debt	(73,815)	—	—	—	(73,815)
Loss on repurchase of debt	106,198	—	—	—	106,198
Amortization of consent and commitment fees	257	—	—	—	257
Non-cash stock based compensation	2,640	—	—	—	2,640
Loss (gain) on disposal of capital assets	25	—	—	—	25
Writedown of capital assets	793	—	—	—	793
Adjustment to deferred pension assets	(8,141)	—	—	—	(8,141)
Change in non-current reforestation obligation	(332)	—	—	—	(332)
Equity in earnings of subsidiary	(38,110)	—	—	(38,110)	—
Future income taxes	(14,353)	—	—	—	(14,353)
Utilization of investment tax credit	30,060	—	—	—	30,060
Change in non-cash operating working capital	34,077	22,965	32,142	—	89,184
Cash provided by (used in) operating activities	258,095	48,858	57,475	—	364,428
Cash Flows from Investing Activities					
Investment in Voyageur Panel Limited	(296,300)	—	—	—	(296,300)
Acquisition of Cash of Voyageur Panel Limited	51,142	—	—	—	51,142
Investment in Minnesota OSB Facilities	(584,847)	—	—	—	(584,847)
Additions to capital assets	(17,987)	—	—	—	(17,987)
Decrease (increase) in other assets	(1,555)	—	—	—	(1,555)
Proceeds on disposals of capital assets	40	—	—	—	40
Cash used in investing activities	(849,507)	—	—	—	(849,507)
Cash Flows from Financing Activities					
Proceeds from issue of Senior Secured Notes	996,387	—	—	—	996,387
Redemption of Senior Secured Notes	(451,305)	—	—	—	(451,305)
Financing costs	(26,214)	—	—	—	(26,214)
Dividends Paid	(14,660)	—	—	—	(14,660)
Advances to Parent Company	—	(32,315)	(106,057)	138,372	—
Advances from Subsidiary Company	138,372	—	—	(138,372)	—
Repurchase of Common shares	(284)	—	—	—	(284)
Increase (decrease) in capital lease obligations	(275)	—	—	—	(275)
Cash (used in) provided by financing activities	642,021	(32,315)	(106,057)	—	503,649
Net Cash Inflow (Outflow)	50,609	16,543	(48,582)	—	18,570
Cash and Cash Equivalents, Beginning of Year	142,912	—	51,142	—	194,054
Cash and Cash Equivalents, End of Year	$ 193,521	$ 16,543	$ 2,560	$ —	$ 212,624

[a] *Statement of Cash Flows for the period from September 22, 2004 to December 31, 2004.*

[b] *Statement of Cash Flows for the period from May 19, 2004 to December 31, 2004.*

26. SUBSEQUENT EVENTS

On December 24, 2004, the Company created Ainsworth Engineered Canada Limited Partnership. This partnership was created to facilitate the integration of the Canadian business operations under one entity. Beginning on January 1, 2005 Ainsworth Lumber Co. Ltd. and Ainsworth Engineered Corp. contributed the use of certain of their assets to the partnership.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Allen Ainsworth
Vancouver, BC

Brian Ainsworth
Vancouver, BC

Catherine Ainsworth
Vancouver, BC

David Ainsworth
Vancouver, BC

Susan Ainsworth
Vancouver, BC

Ron Anderson
Vancouver, BC

Gordon Green
Sidney, BC

Morley Koffman
Vancouver, BC

Gordon Lancaster
West Vancouver, BC

OFFICERS

Brian Ainsworth
Chairman &
Chief Executive Officer

Allen Ainsworth
President

Catherine Ainsworth
Chief Operating Officer &
Corporate Secretary

Michael Ainsworth
Executive Vice-President

Douglas Ainsworth
Senior Vice-President,
Marketing

Kevin Ainsworth
Senior Vice-President,
BC Timberlands &
Speciality Plywood

Robert Allen
Chief Financial Officer

CONTACTS

CORPORATE OFFICE
604 661 3200 Telephone
604 661 3201 Fax

INTERNET
www.ainsworth.ca

EMAIL
info@ainsworth.ca

TRADING SYMBOL
ANS on Toronto Stock Exchange

AUDITORS
Deloitte & Touche LLP
Vancouver, BC

SOLICITORS
Koffman Kalef
Vancouver, BC

TRANSFER AGENT
Computershare Trust Company
of Canada
Vancouver, BC

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders will be held on Thursday, May 26, 2005, at 11:00 am at the Marriott Pinnacle Hotel, 1128 West Hastings Street, Vancouver, BC.

Ainsworth Group of Companies
Suite 3194 Bentall 4
PO Box 49307
1055 Dunsmuir Street
Vancouver, BC
Canada V7X 1L3

877 661 3200 Toll free
604 661 3200 Telephone
604 661 3201 Fax

www.ainsworth.ca

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